

## Message Text

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USMISSION OECD PARIS

C O N F I D E N T I A L VIENNA 2215

EO 11652: GDS  
TAGS: EFIN, AU  
SUBJ: HOW HARD IS THE SCHILLING?

1. SUMMARY. AS THE GROWTH RATE IN AUSTRIAN PRICE  
IN DEXES CONTINUES TO TOP THAT IN SWITZERLAND AND  
ESPECIALLY THE FRG -- THE TWO NEIGHBORING COUNTRIES  
WHOSE CURRENCIES DETERMINE THE VALUE OF THE AUSTRIAN  
SCHILLING UNDER THE "HARD SCHILLING" POLICY -- THE  
MORE THAT POLICY IS ATTACKED, THUS RAISING THE QUESTION  
OF A POSSIBLE SCHILLING DEVALUATION. WE HAVE ASKED  
VARIOUS SOURCES ABOUT THE LIKLIHOOD OF DEVALUATION,  
AND FIND THAT WHILE GROWING DEMANDS FOR RELAXING THE  
HARD SCHILLING POLICY ARE MET BY OFFICIAL STATEMENTS  
ARGUING AGAINST THE NEED FOR AND ADVISABILITY OF  
DEVALUATION, OFFICIAL SOURCES ARE BEGINNING TO QUALIFY  
THEIR ANSWERS IN PRIVATE CONVERSATIONS. END SUMMARY.

2. QUESTION: "WHY IS THE SCHILLING LIKE A SACHER-  
TORTE?" ASKED A RIDDLE CURRENTLY CIRCULATING IN  
VIENNA. ANSWER: "BECAUSE IT IS HARD OUTSIDE AND  
VERY SOFT INSIDE." THIS TYPICALLY VIENNESE APPROACH  
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TO A DRY -- BUT IMPORTANT -- SUBJECT ALSO REVEALS  
ANOTHER LOCAL TRAIT: BENEATH ALL THE SCHLAG, THE  
CAREFUL TASTER EVENTUALLY WILL FIND A SOLID MORSEL--  
IN THIS CASE INCREASING CONCERN THAT AUSTRIAN GOODS  
AND AUSTRIAN SERVICES (ESPECIALLY TOURISM) ARE  
BECOMING OVER-PRICED.

3. IN JULY 1976 THE GOA MODIFIED ITS TRADITIONAL HARD SCHILLING POLICY TO TIE THE SCHILLING MORE CLOSELY TO THE D MARK AND SWISS FRANC. THIS POLICY IS DESIGNED TO PREVENT IMPORTING INFLATION BY HOLDING THE COST IN SCHILLINGS OF IMPORTS FROM AUSTRIA'S PRINCIPAL SUPPLIERS CONSTANT. HOWEVER SINCE INFLATION OVER THE SAME PERIOD HAS BEEN RUNNING AT AN ANNUAL RATE OF 6-7PERCENT -- SUBSTANTIALLY ABOVE THAT IN THE FRG AND SWITZERLAND -- IT ALSO AFFECTS AUSTRIAN EXPORTS TO THIRD COUNTRIES AND THE ATTRACTIVENESS OF VISITING AUSTRIA.

4. CAUGHT IN THIS DOMESTIC COST-EXPORT PRICE SQUEEZE AUSTRIAN EXPORTERS HAVE BECOME INCREASINGLY VOCAL ABOUT THE DISPROPORTIONATE BURDEN THEY ARE FORCED TO BEAR IN AUSTRIA'S STABILIZATION PROGRAM AND THE DANGERS OF BEING PRICED OUT OF WORLD MARKETS. THESE CRIES ARE ECHOED PUBLICLY BY THEIR ASSOCIATIONS, INCLUDING THE POWERFUL FEDERAL CHAMBER OF COMMERCE, AND ARE BEING EXPRESSED PRIVATELY IN BROADER CIRCLES. THE MANAGER OF AN AMERICAN BANK SUBSIDIARY SAYS "AUSTRIAN EXPORTERS ARE BEING PUT TO THE RACK". SINCE AUSTRIAN EXPORTS LAST YEAR INCREASED BY 16PERCENT, THIS IS NOT SELF EVIDENT, BUT WHAT WE HEAR INDICATES THAT ALREADY LIMITED PROFITS WERE SQUEEZED FURTHER -- A SITUATION THAT CANNOT LAST FOR EVER.

5. IN ITS DESIRE TO KEEP BOTH UNEMPLOYMENT AND COSTS LOW, THE GOA HAS SEIZED UPON THE HARD SCHILLING

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POLICY AND ELEVATED IT TO A POSITION OF POLITICAL PROMINENCE WHICH WE FEEL IS NOT FULLY COMMENSURATE WITH ITS ECONOMIC EFFECTS. HAVING DONE SO, HOWEVER, ANY RETREAT WOULD RESULT IN POLITICAL AS WELL AS ECONOMIC LIABILITIES FOR THE ADMINISTRATION. NOTWITHSTANDING THESE, SEVERAL PROMINENT AUSTRIAN ECONOMIC MANAGERS RECENTLY HAVE NOTED THE SCHILLING'S VULNERABILITY. IN A BACKGROUNDER WITH AN AMERICAN CORRESPONDENT, THE CHAIRMAN OF THE BOARD OF AUSTRIA'S LARGEST (NATIONALIZED) BANK SAID THAT THE HARD SCHILLING POLICY HAD OUTLIVED ITS USEFULNESS AND MUST NOW BE REPLACED WITH A BROADER-BASED APPROACH TO PRICE STABILIZATION. IN HIS VIEW THE SCHILLING HAS BECOME OVERVALUED. I A MEETING WITH COMMERCIAL COUNSELORS, THE PRESIDENT OF THE ASSOCIATION OF AUSTRIAN INDUSTRIALISTS ACKNOWLEDGED THE MERITS OF THE HARD SCHILLING BUT SAID MAINTAINING IT DEPENDED ON: (A) FASTER EXPANSION OF AUSTRIAN EXPORTS; (B) A SIGNIFICANT CUT IN PUBLIC SECTOR

EXPENDITURES; AND (C) HOLDING WAGE INCREASES TO ONE TO TWO POINTS UNDER THOSE IN WEST GERMANY. SINCE ACHIEVING ALL OF THESE IS NOT AT ALL LIKELY, HIS POINT WAS CLEAR.

6. EVEN MORE SIGNIFICANT WAS A RECENT COMMENT OF THE GENERAL MANAGER OF THE AUSTRIAN NATIONAL (I.E. CENTRAL BANK, DR. KIENZL. KIENZL, WHO HAS LED THE DEFENSE OF THE HARD SCHILLING, TOLD US THAT THE GOA COULD STICK TO THE HARD SCHILLING ONLY IF THE CURRENT ROUND OF WAGE NEGOTIATIONS RESULTED IN "RESTRAINED SETTLEMENTS". HE CITED SOME, ALREADY CONCLUDED, AS TOO HIGH (I.E. BANK/INSURANCE WORKERS WHO GOT 7.5PERCENT.) FOR DR. KEINZL THE KEY WAS THE METAL WORKERS UNION (AUSTRIA'S LARGEST.) IN HIS OPINION, IF THE METAL WORKERS GET MORE THAN 8PERCENT (THE WAGE INCREASE RECENTLY GRANTED GERMAN METAL

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WORKERS) HE DID "NOT KNOW WHAT WE COULD DO."

7. AFTER A BREAK DOWN IN NEGOTIATIONS AND THREATENED STRIKE BY THE METAL WORKERS (WHICH WOULD HAVE BEEN AUSTRIA'S FIRST MAJOR STRIKE IN 15 YEARS) THE CHANCELLOR INTERVENED, ON THE VERGE OF LAST WEEK'S VISIT TO THE USA, AND QUICKLY GOT AGREEMENT TO A 7.5PERCENT WAGE INCREASE. WHEN FRINGE BENEFITS ARE ADDED IN, HOWEVER, THE COST INCREASE IS OVER 10PERCENT. JUST HOW THIS AFFECTS DR. KIENZL'S CALCULATIONS IS NOT SELF EVIDENT, BUT WE ARE CERTAIN THAT HE HAS HIS PENCIL OUT AND SHARPENED.

8. IT IS HARD -- AND RISKY -- TO MAKE QUICK ASSESSMENTS OF LATE DEVELOPMENTS, BUT TWO IN PARTICULAR STAND OUT. FIRST, PRELIMINARY FIGURES FOR JANUARY SHOW IMPORT GROWTH AGAIN SUBSTANTIALLY AHEAD OF EXPORT GROWTH WITH A SIGNIFICANT INCREASE IN THE TRADE DEFICIT. SECOND, ON MARCH 15 THE FINANCE MINISTER PROPOSED A NUMBER OF MEASURES DESIGNED TO STIMULATE EXPORTS (AT INCREASED COST TO THE GOA). REPORTS OF NATIONAL BANK INTERVENTION TO SUPPORT THE SCHILLING RECUR, BUT ARE HARD TO PIN DOWN.

9. TO CONCLUDE, IT SEEMS EVIDENT THAT SOONER RATHER THAN LATER THE GOA WILL STRETCH THE CORD LINKING SCHILLING AND D MARK. IDEALLY, THIS COULD OCCUR (AS AN APPARENT AFTERTHOUGHT) TO A NEW D MARK REVALUATION BY SIMPLY NOT MOVING ALONG. SINCE REVALUATION IS NOT CERTAIN, HOWEVER, THE GOA MAY NEED TO ACT ALONE. SHOULD THIS PROVE TO BE

THE CASE, AN APPROPRIATE TIME WOULD BE APRIL WHEN  
THE LAST OF GERMANY'S WINTER TOURISTS LEAVE AND  
PLANS FOR SUMMER VISITS ARE BEING MADE.BUCHANAN

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## Message Attributes

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